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No. 90-827

IN THE
Supreme Court of the United States
OCTOBER TERM, 1990

PORTEC, INC.,

Petitioner,

v.

THE POST OFFICE, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE TENTH CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

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STATEMENT OF THE CASE

1. Clarification as to the conduct of Portec giving rise to the punitive damages award.

The Petitioner (Portec) implies that it "was to receive certain confidential information and training from the Post Office pertinent to the design, manufacture and installation of Safeglide® chutes" once a license was entered. Petition at 2. In fact, Portec received extensive confidential information and training from the Post Office during the confidential negotiations. In supporting the injunctive relief, the district court noted nine categories of misappropriated trade secret information as alleged by plaintiff and as submitted as evidence to the jury. *See* Respondent Appendix (9/19/88 Mem. Op.) at 3a-4a. Portec then used this information to make similar chutes in the U.S. without a license, initially unbeknownst to the British Post Office.

Portec further states that "[o]ver the course of negotiations, it became apparent to Portec that a license agreement would not be accomplished." Petition at 3. Portec omits the fact that, after Portec concluded that it did not want to enter a license, it continued to feign interest in a license in order to obtain additional confidential information and actual Safeglide® chutes from the Post Office. Such information was provided by the Post Office to Portec only because Portec continued to act interested in a license.

Documents written by Portec's general manager, Lon Bechtold, evidenced Portec's fraudulent and deceptive intent while negotiations continued. In December 1984, Mr. Bechtold wrote two memos to his general counsel. One requested a "reading on our legal exposure if we produce chutes without a license." *See* PTX (Plaintiff's Trial Exhibit) 76. Mr. Bechtold admitted in the memo that Portec "had

[received] considerable exchange, models, literature, pricing, prototype installation from the Post Office during negotiations." The other memo admitted that Portec continued to feign insistence on an unimportant clause in the proposed license "in case we didn't choose to sign the agreement on the grounds of this paragraph." PTX 281.

Six days later, Mr. Bechtold telexed the Post Office, *thanking* them for "devoting the extra time to our discussion on the license agreement" and wishing them "the happiest of holidays." PTX 44. In the weeks that followed, Portec continued to request and receive confidential information from the Post Office under the guise of a continued, friendly interest in entering a license. In February 1985, Mr. Bechtold confirmed in an internal memo that Portec ordered two spiral chute sections from the Post Office by calling them "spares" for a customer, when in reality Portec intended to use the chutes as a pattern for manufacturing its own chutes without a license. PTX 59.

By March of 1985, Portec was producing spiral chutes similar to the Safeglide® spiral chutes. PTX 46. In May of 1985, after Portec was up and running as an unlicensed chute manufacturer, it continued to mislead the Post Office by requesting that the license negotiations be regarded as "still open." PTX 45.

Portec also fails to mention that it exploited the Post Office's reputation, too. Portec misrepresented itself as a British Post Office licensee even after deciding to steal rather than pay for the technology. PTX 214A. Portec told a customer that it was able to sell the chutes at a reduced price because the royalty had been "waved [sic]." PTX 313. These are mere examples of the facts demonstrating Portec's premeditated scheme to misuse the reputation and trade secrets of the British Post Office, without paying.

Portec knowingly lied to the British Post Office and spiral chute customers to achieve its goals. The Tenth Circuit confirmed that the award of punitive damages was properly based on willful conduct by Portec, a finding not challenged here. *See Portec, Inc. v. The Post Office*, 913 F.2d 802, 807-09 (10th Cir. 1990) (Petition Appendix at A-10). That Portec challenges only the amount, not the fact, of the punitive damages award is a testament to the substantial evidence of Portec's elaborate scheme to wilfully misappropriate trade secrets, defraud the Post Office, and mislead customers.

2. The statute which Portec requests this Court to review was repealed three years ago.

Portec mentions a "recent amendment" to the Colorado punitive damages statute limiting awards to treble damages. (Petition at 11). In fact, the amended statute applies to all actions accruing after 1987. *See Portec*, 913 F.2d at 809 (Petition Appendix at A-10) fn.2. This action was tried under the old statute which is now repealed.

3. The Tenth Circuit substituted its judgment for the jury's.

In granting remittitur, the Tenth Circuit concluded that it "must use [its] judgment to determine an appropriate punitive damages amount, just as the jury used its judgment to arrive at the first figure." *See Portec*, 913 F.2d at 811 (Petition Appendix at A-14). The Court reduced the punitive damages award to one-third its original amount, or $500,000.00. The Post Office accepted this remittitur in lieu of a new trial. The substituted punitive damages award is approximately 6.3 times the (unchallenged) actual

damages award, and less than the (unchallenged) attorneys' fees and costs award.

REASONS FOR DENYING THE WRIT

Although members of this Court have noted that punitive damages awards may raise important due process issues, the particular facts of the present case do not sharply present issues appropriate for review.

1. Portec failed to properly present the issue to the trial court, instead relying on the statute it now attacks.

Rule 406 of the Local Rules of the United States District Court for the District of Colorado states that the party raising a question as to the constitutionality of a state statute must give special notice to the court and serve a copy of the written notice on the attorney general of the state involved. This rule placed the burden on Portec to ensure compliance with 28 U.S.C. § 2403(b), which required that the attorney general of the state of Colorado be notified that Portec challenged the constitutionality of the former Colorado punitive damages statute. However, Portec did not comply with this local rule.

Consequently, Colorado's attorney general had no opportunity to present arguments for or against the constitutionality of the punitive damages statute. As a result, even if this Court *sua sponte* provided the Colorado attorney general with an opportunity to intervene, this Court would be acting on a legal and factual record not before the lower courts.

Portec did not comply with Rule 406 because Portec had no objection to the statute before or at trial. To the contrary, Portec affirmatively invoked the same Colorado

statute in seeking punitive damages under its (rejected) fraud counterclaim.

The fact that Portec affirmatively relied upon the old Colorado punitive damages statute estops Portec from now questioning the statute's constitutionality. *See, e.g., Electric Co. v. Dow*, 166 U.S. 489, 492-93 (1897) (precluding challenge to constitutionality of damages statute); *United Fuel Gas Co. v. Railroad Comm'n*, 278 U.S. 300, 307-08 (1929) (refusing to hear challenge to statute constitutionality).

Portec failed to give the district court the opportunity to consider its arguments either before or during the trial. To the contrary, Portec was sufficiently satisfied with the constitutionality of the statute to invoke it. Under such circumstances, the Court should exercise its discretion in denying Portec's petition.

2. Deciding the constitutionality of Colorado's repealed punitive damages statute would primarily benefit only the particular litigants.

Portec has not shown that the requirements of Supreme Court Rule 10.1 are satisfied in this case. There is no conflict among the decisions of any courts as to the constitutionality of Colorado's repealed punitive damages statute. *See Portec*, 913 F.2d at 809 (Petition Appendix A at 11).

Moreover, "special and important reasons" for granting the petition are lacking. Portec asks this Court to strike down a statute which the Colorado legislature repealed three years ago. If Portec's Petition is accepted, this Court will find itself sitting merely for the benefit of the particular litigants rather than providing guidance to the courts and legislators on the punitive damages issue.

> A federal question raised by a petitioner may be 'of substance' in the sense that, abstractly considered, it may present an intellectually interesting and solid problem. But this Court does not sit to satisfy a scholarly interest in such issues. Nor does it sit for the benefit of the particular litigants . . . . 'Special and important reasons' [under Rule 10.1] imply a reach to a problem beyond the academic or the episodic. This is especially true where the issues involved reach constitutional dimensions, for then there comes into play regard for the Court's duty to avoid decision of constitutional issues unless avoidance becomes evasion.

Rice v. Sioux City Memorial Parks Cemetery, 349 U.S. 70, 74 (1955) (dismissing writ of certiorari after learning that the state repealed statute at issue) (citations omitted). *See also District of Columbia v. Sweeney*, 310 U.S. 631 (1940) (denying petition for writ of certiorari "in view of the fact that the tax is laid under a statute which has been repealed, and the question is therefore not of public importance.").

Portec has made no showing that the present case has importance beyond the present controversy. To the contrary, even if it is assumed that other states have statutes parallel to Colorado's repealed statute, a decision in the present case will have questionable application on a broader level. The process of awarding punitive damages in other states may vary by the precise statutory language

involved, the instructions given to the jury, trial court review, and appellate review. Under such circumstances, it appears prudent for the court to reserve consideration of the issue raised by Portec for a case demonstrated to have more widespread, relevant, and practical ramifications.

3. Because the Tenth Circuit substituted its judgment for the jury's, the constitutional issue is not sharply presented.

The focus of Portec's attack on the former Colorado punitive damages statute is that the statute "allows unfettered discretion to the jury to award any amount of punitive damage without reasonable limitations based upon the Defendant's conduct. Further, such damages are not specifically measured against actual injury, and thereby can be awarded without any objective standard imposed on their amount." Petition at 4.

The present case does not present these issues. The jury did not exercise "unfettered discretion" in setting punitive damages without reasonable limitations, relationship to actual injury, or an objective standard. To the contrary, Portec received the benefit of a thorough review of the punitive damages award by the Tenth Circuit. Indeed, the Tenth Circuit substituted its judgment for the jury's in reducing the punitive damages award by two-thirds.

The Tenth Circuit considered the nature of the act which caused the injury, the economic status of the defendant including net worth, the deterrent effect of the award, product sales, and the relationship between the punitive damages and compensatory damages. *See Portec*, 913 F.2d at 810 (Petition Appendix A at 12), *citing Malandris v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 703

F.2d 1152, 1177 (10th Cir. 1981). The Tenth Circuit even considered the scope of the injunction and the attorneys' fees award to the Post Office, which were remedies entered after the verdict that could not have been considered by the jury.

This process contrasts with the process addressed in the excerpts from *Pacific Mutual Life Insurance Co. v. Haslip*, ____ U.S. ____, 110 S.Ct. 1780 (1990) and *Bankers Life and Casualty Co. v. Crenshaw*, 486 U.S. 71 (1988), cited in the Petition at 5-6. Those excerpts address the award of punitive damages merely as a matter of moral discretion and without considering the amount necessary to punish and deter or the amount of actual harm caused. Such concerns are not involved here.

This Court should defer to the reasoned decision by a three-judge panel of the Tenth Circuit. *See* Justice Marshall's concurrence in *Browning-Ferris Industries, Inc. v. Kelco Disposal, Inc.*, _____ U.S. _____, 109 S.Ct. 2909 (1989), which stated that the court was likely to defer to a punitive damages award "situated within a range of penalties as to which responsible officials had deliberated and then agreed." 109 S.Ct. at 2923 (cited in Petition at 8).

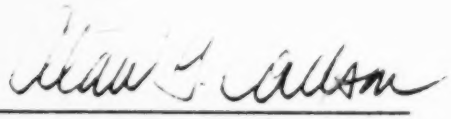
Finally, Portec makes no specific showing that the modified award was excessive. It merely notes that the 6:1 ratio of punitive to actual damages exceeds the 3:1 limit in Colorado's current statute. Portec has not shown that either the amount of the punitive damages award, or the process used to set that amount, was unfair.

CONCLUSION

For all the foregoing reasons, the Petition for Certiorari should be denied.

Respectfully submitted,

THE POST OFFICE, INC.



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Dated: December 26, 1990

APPENDIX

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLORADO

THE POST OFFICE,	)	
	)	
Plaintiff,	)	
	)	
v.	)	No. 87-F-681
	)	
PORTEC, INC.,	)	
	)	
Defendant.	)	

MEMORANDUM OPINION

This memorandum opinion is entered simultaneously with the judgment in this case in order to articulate the court's reasoning behind the issuance of the injunctive relief set forth in the judgment. Particularly, the court feels it is necessary to address the propriety and scope of the injunction issued.

At the conclusion of the jury trial of this matter, the jury returned answers to twenty proposed special interrogatories. On the five submitted claims of the plaintiff[1], the jury found liability as to all but one of those claims. The jury found no liability on plaintiff's claim for federal trademark infringement. The jury, however, found defendant liable to plaintiff for misappropriation of trade secrets,

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[1] Plaintiff's claims for breach of contract, implied covenant of good faith and fair dealing, and violations of the plug molding statutes of California, Tennessee, and Michigan were dismissed by the court prior to submission of the case to the jury.

breach of fiduciary duty, false designation of origin, and fraud. After the jury returned its answers to the special interrogatories, plaintiff moved the court for the issuance of a permanent injunction forever barring defendant from manufacturing, selling, offering to sell, or agreeing to sell defendant's "Spiralglide" spiral chutes or any other non-mechanized spiral chutes. On September 7, 1988, a hearing was held on plaintiff's request for permanent injunction.

This court has not granted plaintiff its requested relief in total as evidenced by the judgment filed herein which enjoins defendant and its officers, agents, servants, employees, attorneys, successors and assigns, and all of those in active concert with any of them, from manufacturing, selling, fulfilling outstanding quotes, offering to sell, agreeing to sell, or advertising the sale of "Spiralglide" spiral chutes or any other non-mechanized chutes for a period of four (4) years. Defendant is further permanently enjoined from actions which would confuse the consuming public into believing that defendant's products and services are associated or connected with plaintiff's and further permanently enjoined from representing or implying that defendant was a licensee of plaintiff.

As ardently as plaintiff sought a complete permanent injunction, defendant was equally insistent on the court exercising its discretion and refraining from issuing any injunction. Defendant maintains that no injunction is warranted by the evidence in this case.

There can be no doubt that some form of injunctive relief is appropriate. The jury found that, among other things, defendant had misappropriated plaintiff's trade secrets and falsely designated the origin of its "Spiralglide" spiral chutes. In fact, the jury found defendant's conduct to be so egregious that it awarded plaintiff 1.5 million dollars for punitive damages. Many courts in trade secret

misappropriation cases have sanctioned the imposition of injunctive relief against the transgressing party. Kodeky Electronics, Inc. v. Mechanex Corporation, No. C-2432, slip op. (D. Colo. June 2, 1972), aff'd, 486 F.2d 449 (10th Cir. 1973); Schulenberg v. Signatrol, Inc., 33 Ill. 379, 212 NE 2nd 865, cert. denied, 383 U.S. 959 (1965); Bryan v. Kershaw, 366 F.2d 497, cert. denied, 386 U.S. 959 (1966); Franke v. Wiltschek, 209 F.2d 493 (2nd Cir. 1953). In the appropriate case, the injunction may prohibit a party from the manufacture or sale of a particular product, and not just the use of the trade secrets involved, when it is established by the evidence that the secrets are so necessarily intertwined with the manufacture and sale of the product. Kodeky Electronics, Inc., 486 F.2d at 458. The trade secrets as alleged by plaintiff and as submitted as evidence to the jury in this case included:

1. Production costs and pricing of plaintiff's "Safeglide" chutes;

2. Identification of plaintiff's licensees, makers, and suppliers of plaintiff's chutes and the terms of any agreements;

3. Identification of the materials used to produce plaintiff's chutes and the selection process for those materials;

4. Actual spiral chute sections, the chute configuration, and the formulas for the gelcoat;

5. Information as to the installation of plaintiff's chutes and theory of principles considered in designing plaintiff's chutes;

6. Drawing, dimension,s and designs of chutes, and information relating to the manufacture of chutes, including tooling and molding processes and preparation and application of materials;

7. Customer names, leads, marketing and promotional materials;

8. Physical inspection and training assistance information;

9. Specification of proper chute design for particular uses and customers and the appropriate applications for particular designs.

The court finds this to be an appropriate case for the imposition of an injunction against defendant's manufacture or sale of non-mechanized spiral chutes. The nature of the trade secrets allegedly misappropriated does not lend itself to a prohibition against the use of a particular trade secret or secrets. To issue an injunction which prohibits only the use of a trade secret or secrets would create enforcement problems which would not be capable of accurate resolution. The trade secrets listed above are so necessarily intertwined with the manufacture and sale of spiral chutes that an injunction which falls short of barring the manufacture and sale of any such chutes would fail to adequately apprise defendant as to the prohibited conduct and would create a potential window of opportunity for defendant to engage in conduct which would prevent plaintiff from being made whole for the actions of defendant in breaching the parties' confidential relationship.

To say that defendant must be prohibited from manufacturing or selling a particular product, such as non-mechanized spiral chutes, is not to say that defendant should forever be barred from such activity. Where trade secret material may be legally copied by competitors, whether through a visual examination of the product or through independent research groups comprised of skilled engineers, accountants, economists, and market researchers, the purpose of the injunctive relief should not be to put a transgressing party out of business or to punish it, but should be to make the injured party whole by fashioning injunctive relief which removes the competitive advantage gained through the appropriation of the trade secrets. See Schulenberg, supra; Kershaw, supra. The court finds that injunctive relief barring defendant from the manufacture or sale of "Spiralglide" spiral chutes or any other non-mechanized spiral chutes for a period of four years properly reflects the balancing of trade secrets allegedly misappropriated to achieve a time frame which removes the competitive advantage gained by defendant through its actions.

Plaintiff would have the court issue the injunction for eight years if a permanent injunction is not to be entered. Plaintiff maintains this eight year period is the time it took for it to develop the compilation of information necessary to produce their "Safeglide" spiral chute. The court finds that plaintiff has exaggerated the importance and unavailability of its information and has failed to take into account that defendant was already in the package handling industry prior to its initial contact with plaintiff, and that defendant had significant experience with marketing techniques, sales and production data, and manufacturing techniques in relation to other chutes, such as flat bottomed steel chutes which, although clearly not as intricate and

highly technical as spiral chutes, establish that defendant was not a neophyte in the industry[2]. The evidence established that much of the financial data and marketing materials submitted as trade secrets were more readily available to defendant than plaintiff wishes to acknowledge.

Accordingly, the court finds four years to be a reasonable time within which to remove the competitive advantage gained by defendant for the actions, found by the jury, to have been committed.

The jury also found that defendant was liable for false designation of origin as to its spiral chutes. In this respect, the court finds that permanent injunctive relief is entirely appropriate and has so ordered by enjoining defendant from actions which would confuse the consuming public regarding its products and from representing or implying that defendant was a licensee of plaintiff.

IT IS SO ORDERED this 19th day of September, 1988.

Frank H. Seay
United States District Judge

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[2] Plaintiff relies heavily on defendant's 1983 business plan (Plaintiff's Exhibit 618) for the proposition that defendant knew nothing about non-mechanized spiral chutes. In fact, Exhibit 618 states that defendant did not "know enough about the techniques or engineering required." (emphasis added) The conclusion the court draws from this statement is that defendant did have some knowledge but not quite enough to get into the business of making spiral chutes. This is quite different from not knowing anything as plaintiff suggests.